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NO. 99-0575-3

INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE PIONEER VALLEY PLANNING COMMISSION

OFFICIAL AUDIT REPORT
JAN 21 2000
ISSUED BY THE
Department of the State Auditor

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INTRODUCTION

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The Pioneer Valley Planning Commission (PVPC) is a regional planning agency established under the Regional Planning Law known as Chapter 40B of the Massachusetts General Laws. The purpose of the law is to permit a city or town to plan jointly, with the greatest efficiency and economy, the coordinated and orderly development of the areas within its jurisdiction and the general welfare and prosperity of their citizens. Based in West Springfield, the PVPC's region consists of the 43 cities and towns in Hampden and Hampshire counties. It is one of 13 similar agencies that serve the Commonwealth's 351 cities and towns. The PVPC's role with its member communities is to serve as an advisory body that is organized to provide, through research and analysis, community representatives and PVPC staff members necessary to define and direct solutions to area-wide problems that cannot be solved by an individual community working alone. Organizational objectives include solving problems associated with a wide array of issues, including transportation, environmental/land use, historic preservation, data and mapping services, economic development, community/rural development, and housing.

Our audit included an examination of the accounts and activities of PVPC under its state contracts. Our objectives were to determine whether PVPC had implemented effective management controls, and to assess PVPC's business practices and compliance with applicable laws, rules, and regulations, as well as the fiscal and programmatic requirements of its state programs and contracts. PVPC derives the majority of its funding through contracts with federal, state, and local governments which totaled more than \$2.2 million for the fiscal year ended June 30, 1998. PVPC also receives assessments from its member communities, based upon population, that totaled \$90,431 during fiscal year 1998.

The results of our review showed that PVPC has adequately implemented effective management controls within its overall business practices, and has complied with all applicable laws, rules, and regulations governing its operations. Our audit did, however, identify one area within its fiscal and financial reporting practices that should be reviewed and addressed by PVPC management in order to strengthen the agency's reporting of its financial transactions.

AUDIT RESULTS

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Operational Financial Reporting Practices Need Improvement: During our review, we noted an area for improving upon PVPC's operational financial reporting practices during its annual audit process. Specifically, we found that PVPC was reporting only the administrative fee portion of recipient grant funds on its audited financial statements and financial records, without disclosing the custody of \$337,100 in recipient grant funds on hand as of June 30, 1998. In addition, approximately \$2.5 million in recipient grant receipts and disbursements processed by the agency in a fiduciary capacity were not acknowledged in its annual single audit report. By not disclosing the level of custodial activity in its fiduciary

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capacity, PVPC is understating the true level of financial activity within its fiscal operations. Such disclosures would be beneficial to readers of its financial statements. Disclosure of such fiduciary activity would also benefit the agency in any fiscal or operational assessment decisions made by outside parties. In response to our recommendation, the agency immediately took action to have this added disclosure implemented and reflected in PVPC's audited financial statements.	
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INTRODUCTION

Background

The Pioneer Valley Planning Commission (PVPC) is a regional planning agency based in West Springfield. PVPC's geographic region consists of the 43 cities and towns in Hampden and Hampshire counties. In 1955, the Massachusetts Legislature enacted the Regional Planning Law known as Chapter 40B. The purpose of the law is "to permit a city or town to plan jointly with cities or towns to promote with the greatest efficiency and economy the coordinated and orderly development of the areas within their jurisdiction and the general welfare and prosperity of their citizens."

The PVPC held its first organizational meeting in April 1962. Eventually, it became one of 13 similar agencies situated across the Commonwealth that serve the state's 351 cities and towns. The PVPC defines its role with its member communities as an advisory body that is organized to provide, through research and analysis, community representatives and PVPC staff members necessary to define and direct solutions to area-wide problems that cannot be solved by an individual community working alone. Organizational objectives include solving problems associated with a wide array of issues, including transportation, environmental/land use, historic preservation, data and mapping services, economic development, community/rural development, and housing.

PVPC derives the majority of its funding through contracts with federal, state, and local governments which totaled more than \$2.2 million for the fiscal year ended June 30, 1998. PVPC also receives assessments from its member communities, based upon population, that totaled \$90,431 during fiscal year 1998. The overall policy and planning issues are guided by a Board of Directors and by its Executive Committee. The agency's bylaws state that PVPC will develop and maintain a comprehensive regional plan, as well as other functional plans which are intended to guide the orderly growth and development of the Pioneer Valley.

During the period of our audit, PVPC operated over 100 programs, which were funded by federal, state, and local revenues. The following are examples of these programs:

Federal Grants: Chicopee Riverwalk, the Massachusetts Highway Department's Farm Byway program and Keystone Bridge project, Department of Environmental Protection's Lake Lorraine program, and Westfield River, Tannery Brook, and Mill River studies.

State Grants: The Executive Office of Economic Affairs Growth plan and the Connecticut River Strategic plan, and the Department of Environmental Management's Pequot Pond study.

Local Grants: Route 9 Traffic Mitigation, Connecticut Riverwalk, Traffic Counts, Department of Housing and Community Development Block Grant administration for Brimfield, Southwick Master plan, Tolland septic study, Sunderland historic study, and Belchertown Rail Trail study.

PVPC also received assessments from the cities and towns on a per capita basis of 15 cents.

Summary of Revenue
Fiscal Year Ended June 30, 1998

<u>Revenue Source</u>	<u>1998</u>
Federal	\$1,080,351
State	53,719
Local	1,126,923
Member Assessment	<u>90,431</u>
Total Revenues	<u>\$2,351,424</u>

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various fiscal and administrative activities of PVPC during the period July 1, 1997 through June 30, 1998. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included such audit procedures and tests as we considered necessary to meet our audit objectives. Our specific objectives were to:

1. Determine whether PVPC had implemented effective management controls, including processes for planning, organizing, directing, and controlling program operations; policies and procedures to ensure that resource use is consistent with laws and regulations; and policies and procedures to ensure that resources are safeguarded and efficiently used.
2. Assess PVPC's business practices and compliance with applicable laws, rules, and regulations; its own internal policies and procedures; as well as the various fiscal and programmatic requirements of its state contracts.

In order to achieve our audit objectives, we first assessed the system of management controls established and implemented by PVPC over its operations. The purpose of this assessment was to obtain an understanding of the control environment (e.g., management's attitude) and the flow of transactions through PVPC's accounting system, and to use this assessment in planning and performing our audit tests.

Next, we held discussions with PVPC officials and reviewed organizational charts; internal policies and procedures; and all applicable laws, regulations, policies, and procedures. Finally, we examined various agency financial information, including contracts, budgets, cost reports, invoices, and other pertinent financial records to ensure that expenses incurred under PVPC's state contracts were reasonable, allowable, and allocable under these contracts; properly authorized and recorded; and expended in compliance with all applicable laws, rules, and regulations.

Our review was not made for the purpose of forming an opinion on PVPC's general-purpose financial statements. We also did not directly assess the overall quality and appropriateness of program services provided by PVPC under its state-funded contracts. Rather, our review was intended to report findings and conclusions on the extent of PVPC's compliance with applicable laws, rules, and regulations regarding the adequacy of PVPC's performance and on specific processes, methods, and internal controls that could be made more efficient or effective.

AUDIT RESULTS

Operational Financial Reporting Practices Need Improvement

The Pioneer Valley Planning Commission (PVPC) receives grants on its own behalf and also helps cities, towns, and other entities (hereinafter called recipient organizations) to administer local, state, and federal grants. PVPC takes physical custody of these grant funds acting in a fiduciary capacity for these organizations as part of its process of assisting these organizations to administer their grant funds. PVPC is then paid a fee by the recipient organization for this administration.

Our review revealed that only the administrative portion of these recipient grant funds is reflected on PVPC's audited financial statements. As a result, PVPC's financial statements did not reflect \$337,100 of cash in its custody due the recipient organizations as of June 30, 1998. In addition, approximately \$2.5 million of annual grant receipts and disbursements activity processed by the agency in its fiduciary capacity was not acknowledged in PVPC's annual audited financial statements.

Specifically, when PVPC agrees to provide administration of a grant for a recipient organization, it enters into a written agreement specifying how much PVPC will be paid for its administrative services as well as the cost of program services. The type of administrative services that PVPC provides includes helping to implement grant requirements, prepare reports, draw down funds from the funding source, and expend and account for recipients' grant funds. PVPC is paid a fee for these administrative services and this payment is reflected on PVPC's accounting records and audited financial statements. Any grant funds drawn down are turned over by the recipient organization to PVPC for spending. Our examination of PVPC's accounting records revealed that the balance of unexpended grant funds in the custody of PVPC were not disclosed in the single audit of its annual financial statements. In addition, approximately \$2.5 million in recipient grant receipts and disbursements were not acknowledged in PVPC's annual single audit report of the agency's financial statements. Generally accepted accounting principles require that all funds should be recorded on the accounting records of an organization. Additionally, the Office

of Management and Budget Circular A-133 states that all segments of the organization should be audited, as follows:

Subpart E-Auditors

(a) General. The audit shall be conducted in accordance with GAGAS. The audit shall cover the entire operations of the auditee....

By not disclosing the level of custodial activity in its fiduciary capacity, PVPC is understating the true level of financial activity of its fiscal operations that could be beneficial to readers of its financial statements. Disclosure of such activity would also benefit the agency in any fiscal or operational assessment decisions made by outside parties.

Recommendation: PVPC should consult with its auditors and consider whether future audits should both disclose the unexpended balance of grant funds on hand and acknowledge the level of recipient and disbursement activity for the recipient organization grants flowing through PVPC.

Auditee's Response: In response, PVPC officials stated, in part:

.... we're essentially in agreement with your audit finding and, therefore, intend to implement your suggestion that the unexpended balance of individual community development grant funds in any given fiscal year be better reflected in the PVPC's audited financial statements. . . . we will accomplish this by further annotating the financial statements that appear in the PVPC's annual audit report which is prepared by our CPA firm to reflect these custodial funds. This step, in addition to our standard practice of having the CPA's audit report presented at a public meeting of the PVPC's Executive Committee, will further insure that we are properly disclosing all grant activity in the Commission's financial statements, while simultaneously conforming to what is considered generally accepted accounting principles.

ORGANIZATION

The Pioneer Valley Planning Commission (PVPC) is organized by and operates under the provisions of Chapter 40B of the Massachusetts General Laws as a regional planning agency. PVPC's administrative offices are located at 26 Central Street, West Springfield. As of June 30, 1998, PVPC was managed by an Executive Director, Timothy Brennan, and an Executive Committee of the Board of Directors, organized as follows:

<u>Name</u>	<u>Title</u>
William E. Dwyer, Esq. Hadley	Chairperson
David J. Lorenzatti West Springfield	First Vice-Chairperson
Richard E. Butler Wilbraham	Treasurer
Dale A. Morrow Goshen	Assistant Treasurer
Linda Petrella Springfield	Secretary/Clerk
Douglas Albertson Belchertown	At-Large
Andrew Crystal Northampton	At-Large
Francis X. Kelly Chicopee	At-Large
Tamarin Laurel-Paine Middlefield	At-Large

